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ABSTRACT

Prairie State 2000 began as an Illinois initiative to guarantee dislocated workers access to training funds from a pool of employer and employee contributions. Although its rationale was sound and the need was great, it was beset with a number of difficulties: there was no real market for the training, its grants and loans were not worth the cost of the paperwork involved, and companies and workers were seeking short-term relief instead of the long-term investment training represents. The lessons of Illinois' experience for other states include the following: (1) worker training cannot revitalize the economy without business modernization; (2) firms that are unwilling to upgrade production technologies and management methods are not ready to train; and (3) training policies that work well in one state rarely meet other states' needs. The following actions are suggested for policymakers: stimulate training demand by facilitating transition to new business strategies; offer companies information, expertise, and cost-sharing plans; broker the supply of educational services by matching firms and workers with local educational providers; and promote cooperative problem solving rather than relying on traditional coercive political strategies. (YLB)

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The Challenge: To develop state policies that promote long-term investments in a skilled workforce.

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What does the research show?	What should state policymakers do next?
Worker training cannot, by itself, revitalize the economy; business modernization must come first.	Stimulate the demand for training by facilitating the transition to new business strategies.
Firms that are unwilling to upgrade production technologies and management methods are not ready to train.	Meet each firm on its own level, offering information and expertise as well as cost-sharing plans.
Training policies that work well in one state rarely meet the needs of other states.	Broker the supply of educational services by matching individual firms and workers with local educational providers.

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"Look Before You Leap": State Policy and Worker Skills

History has a habit of repeating itself. For those who recall the tough times of the early 1980s, the current recession evokes an unsettling sense of deja vu. Then as now, a recessionary cycle of business failures, corporate red ink, job losses, and lay-offs fueled public outcry for a "magic bullet," a single legislated solution to the nation's complex economic problems. Then as now, outmoded skills and obsolete technologies were blamed for the competitive decline of American industry. The answer, many argued, was for the nation to train its way out of recession — to supply American firms with the trained workers they needed to modernize production technologies, recast management strategies, increase market share, and create new jobs.

One of the states that bought this logic was Illinois. By 1983, the state's unemployment rate had reached 11.4 percent, signalling a political disaster as well as an economic crisis. In the debate over causes and cures, politicians seized on worker training as the key to economic recovery. The result was Prairie State 2000 — a novel training proposal roughly based on Pat Choate's idea of Individual Training Accounts. The legislation guaranteed all dislocated workers access to training funds from a pool created by employer and employee contributions.

From its inception, Prairie State 2000 was plagued with difficulties. In their rush to reassure constituents, the program's sponsors specified that training benefits be disbursed prior to the full establishment of the required training fund. Once the dust had settled, actuarial consultants questioned this training entitlement whose scope was unknown and source of funding uncertain. Given a continuing recession, how could the state create training vouchers when it had no stable mechanism for financing them? Embarrassed lawmakers rescinded the original legislation, appropriating just $3 million annually for a modest program of grants and loans to underwrite the cost of training displaced workers.

In its revised form, Prairie State 2000 seemed to make sense: the rationale for training was sound; the need was great; the politics were right — state aid for some of the community's most productive citizens who faced job loss through no fault of their own. The problem was that no one really understood how such programs might work and how they could benefit either the state's workers or its businesses.

In the end, there was no real market for the training the agency was funded to subsidize. Half of Prairie State 2000's budget was earmarked for the Employer Training Assistance Program (ETAP), which offered grants to offset 50 percent of the employer's direct training costs or low-interest loans covering 100 percent of direct training costs. From the beginning, grant requests were sluggish and loan applications were even slower. After noting ETAP's non-allowable costs (including trainees' salaries and overhead expenses), many firms apparently concluded that Prairie State 2000 grants and loans were not worth the cost of processing the necessary paperwork. Whatever the legislature thought, most firms simply did not believe that worker training was in their own best interest. Neither did the unemployed workers themselves. Pressed hard by recession, individuals as well as enterprises were looking for immediate relief, not long-term investments. Many of the displaced workers who participated in Prairie State 2000 abandoned the training courses once a new job was found.

Through hard experience, Illinois has learned to look twice before leaping on the training bandwagon, but other

states have yet to learn these lessons. In itself the current emphasis on worker training is not misplaced: major investments in the skills of current and future workers are essential for long-term economic recovery. History, however, has shown that training alone is insufficient to prime the nation's economic pump. Corporate managers must first embrace new ways of doing business, including high-performance work organization as well as computer-integrated production. In close cooperation with schools on the one hand and workers on the other, the nation's employers can then begin the necessary upgrading of employee skills.

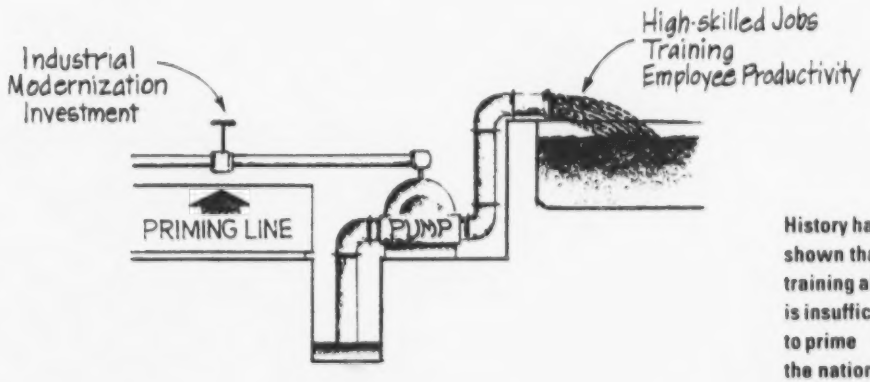
The principal responsibility of public programs such as Prairie State 2000 should be to facilitate this triangular relationship among firms, schools, and workers. For public policymakers, the process begins with four basic questions.

- How can state leaders go about "shifting gears" — correcting misperceptions about worker skills and facilitating modernization of established enterprises?
- How can states work with individual enterprises to stimulate the demand for highly skilled workers?
- To what extent can state agencies help broker the supply of educational services for corporate consumers as well as individual students and workers?
- How can state leaders encourage ongoing development of local education and training markets?

Shifting Gears

The impulse to act first and think later, to accelerate decision making even if it means repeating past mistakes, is as tempting now as it was a decade ago. A deliberate act of will is required for state leaders to throttle back the process sufficiently to notice that the landscape is different, that the world has changed.

When mass production was king, so was the United States, but computer technologies and international competition have changed forever the way the world's goods and services are produced and distributed. In the years ahead, the success of U.S. firms will depend on their ability not only to utilize the latest production and information technologies, but also to incorporate the team-based management structures such technologies require. To date, skill shortages remain minor, simply because not enough American firms have adopted high-performance work organization, but world demand



History has shown that training alone is insufficient to prime the nation's economic pump.

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for highly skilled workers can only escalate as the technological revolution continues.

Common wisdom tends to reduce the whole equation to a single variable — worker skills. Encased in the slogan of "skills shortage," this viewpoint can actually do more harm than good. In the private sector, enterprises may react to rumors of skills shortages not by working to improve skills but by "dumbing-down" jobs, further stalling the competitive progress of American business.

For public policy, the danger is that misperceptions about worker skills will perpetuate outdated attitudes and approaches. Long accustomed to focusing on social goals — protecting workers and their families through job creation and preservation — public policymakers too easily incorporate "skills shortages" into this same mindset. Upgrading worker skills, they reason, will create jobs and spur economic development. This logic, however, does not square with experience.

Stimulating Demand

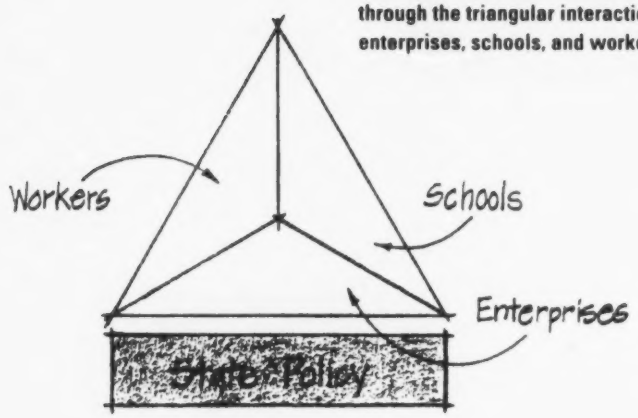
Incentives and disincentives, rewards and punishments, carrots and sticks, play or pay — too often money is seen as public policy's only effective tool of persuasion. Though no one would deny that money talks, its vocabulary is limited to if-then propositions. True facilitation, however, begins not with conditions but with questions: What's the objective? Who are the players? What do they need, and how can we help?

When the objective is to promote long-term investment in a skilled workforce, the players include enterprises of every description — large and small, old and new, service and manufacturing, traditional and innovative. In addressing the varied needs of these firms, state leaders should bear in mind two principles. First, as Patricia Flynn has pointed out, the days of industrial recruitment as a dominant economic strategy are gone. Reliance on tax concessions and inexpensive labor to lure enterprises from other states has reached the point of diminishing returns, actually undermining long-term economic growth by perpetuating low-skilled jobs. Public policymakers should concentrate now on revitalizing enterprises that already are established within the state, encouraging and assisting corporate leaders in their efforts to improve quality and productivity.

In many respects, the challenge is a familiar one: throughout American history federal and state agencies have sought to spur economic development by equipping and informing private enterprise. During the 1930s, the nation's publicly sponsored agricultural extension service persuaded many farmers to adopt new methods of land management, including crop rotation and contour plowing. In this case, public policy helped supply the necessary information and expertise to boost American farming into a new era of agricultural economics. Some sixty years later, public agencies must help firms accomplish a similar transition in their handling of new technologies and management practices.

The second principle follows naturally from the first: firms that are not prepared to modernize are not prepared to train. As the cautionary tale of Prairie State 2000 illustrates, the perceived value of training directly reflects corporate commitment, or lack of commitment, to upgrading production technologies and management methods. When corporate leaders begin acting on their resolve to modernize, issues of worker training snap sharply into focus.

To stimulate and sustain demand for skilled workers, state policymakers must recognize where individual enterprises stand on the modernization curve and meet each firm on its own level. For companies that are reluctant to abandon traditional business strategies, state agencies need to communicate the basic philosophy as well as the practical advantages of high-performance work systems. For companies that already are upgrading production facilities and management structures, state agencies can shift the emphasis to worker skills, facilitating development of training programs to meet the needs of employees as well as employers.



At every level, the main thrust of state policy should be to promote local problem-solving through the triangular interaction of enterprises, schools, and workers.

At every level, the main thrust of state policy should be to promote local problem-solving through the triangular interaction of enterprises, schools, and workers. Seen in this light, traditional modes of state facilitation — communication, financing, administration — acquire a different coloration. In the past, communication too often has meant rhetoric, a one-way conversation intended either to inspire or shame public agencies and private enterprises into action. Such language is clearly inadequate to address the complex economic challenges the nation now faces. In the years ahead, successful adaptation to global economic realities will require an information-based public policy that listens before it talks, that engages enterprises, schools, and families in genuine dialogue, then acts accordingly.

Funding, too, should be understood differently, as a secondary rather than primary agent of change. When a given firm is convinced that its financial interests are best served by modernizing production and upgrading skills, it will take steps to do so. At that point, state policy can encourage further progress by offering tax incentives and access to low-cost capital, sharing the cost of new equipment or worker training, and developing additional mechanisms for cost-sharing among like-minded enterprises and workers.

As genuine communication rises above jawboning and leveraged investments replace unfocused funding, administration of public programs should strive to avoid the proven perils of bureaucracy. Evidence that less is more, for public as well as private organizations, comes from an unlikely source — Prairie State 2000. After languishing for years, the small Illinois agency has suddenly taken on new life, briskly filling prescriptions for managers who now see worker training as a means to improve corporate efficiency and product quality.

In its new incarnation, Prairie State 2000 links established enterprises with the training providers that are most likely to meet their needs. Small manufacturing concerns, in particular, are asking Prairie State 2000 to help them secure training in new techniques of statistical process control, new computer-based technologies, and new approaches to team-based management. The program's parameters are clearly defined: participating firms understand the limitations on grants and loans and come prepared to pay the bulk of training costs.

As more firms in Illinois modernize their methods, placing greater emphasis on sustained quality control, the demand for training continues to grow. In this climate Prairie State 2000 is finally coming into its own, showing how even a modestly-equipped public agency can help broker the supply of educational services for interested enterprises as well as individuals.

Brokering Supply

With any luck, other states will soon begin applying the lessons learned in Illinois. How will state leaders respond when enterprises and individuals approach them with all the right questions? What exactly can state governments offer to firms and workers who want to upgrade skills?

There are many possible answers, but all begin with accurate information. Individual states should begin now to collect and disseminate data on available providers of education and training. With leadership from the executive branch, existing agencies can lay the groundwork for a public referral service that helps match firms and workers with suitable schools, colleges, vendors, and other educational organizations.

As they collect information on current educational providers, state governments should also assess and warrant the quality of those services. Are public schools equipping students with the fundamental skills on which all further learning depends? Are colleges and universities serving the needs of the "new majority" — adult learners from diverse backgrounds who must combine work and school? Is the state guarding against fraud and abuse in proprietary schools? Are state leaders encouraging corporate leaders in their efforts to develop preferred-supplier relationships with commercial training vendors? Are state agencies supportive of employer associations that offer quality educational services to member organizations?

While insisting on high educational standards, public policymakers should refrain from dictating curriculum. Defining worker skills for the 21st century remains a complex and controversial challenge. In the short term, public agencies can help publicize the clear need for broad-based competencies, such as written and oral communication, mathematical ability, and interpersonal skills. Demand for more specific job-related skills, however, can be determined only by the enterprises themselves. For this reason, policymakers should concentrate on clearing the lines of communication, helping managers and employers convey changing skill requirements to educational suppliers as well as to current and future workers.

Over time, public policy's informational role can expand to include shared training investments with firms that are actively engaged in modernizing their methods. As policymakers experiment with cost-sharing, they should be careful to remove any embedded economic barriers. State funding of higher education, for example, too often contains disincentives for older, part-time students and workers. Different states will approach such issues in different ways, but one final test should be applied to all proposals before they are signed into law. Does this policy facilitate, rather than impede, the natural market dynamic? Does it keep the state moving ahead in the development of effective, locally-based education and training markets?

Moving Ahead

On a cold morning, the driver who starts up too fast is the one who stalls at the first stop sign. Purposeful change takes time, and front-end planning is critical to long-term performance. As public policymakers strive to revitalize local economies and reeducate American workers, they should be looking not for quick solutions but for productive feedback. Those states that begin with deliberation — facilitating modernization of established enterprises, stimulating demand for skilled workers, brokering the supply of educational services — will experience soon enough the natural acceleration of a well-fueled market.

Maintaining momentum requires private as well as public leadership. As always, the success of a few firms will motivate other enterprises to adopt new ways of doing business. Following the lead, however, should not be construed as follow-the-leader. Every enterprise is governed by unique circumstances; the formula that flourishes in one firm may flounder in another. For this reason, aspiring enterprises should concentrate on assimilating the principles

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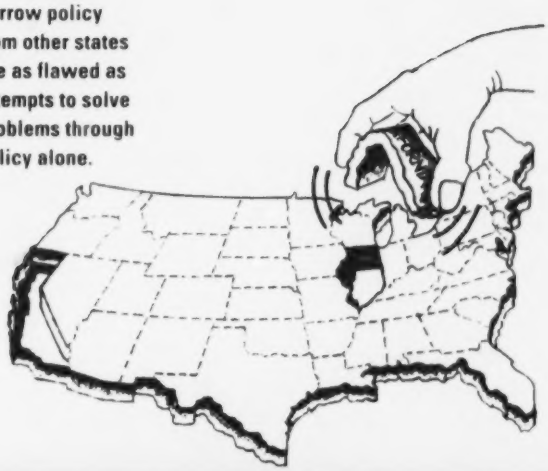

rather than the particulars of long-term investment, emulating rather than imitating frontrunner firms.

Public policymakers may profit from similar reminders. Diverse as the states themselves, effective economic strategies evolve through the complexities of local interaction. From this perspective, attempts to borrow policy from other states are as flawed as attempts to solve problems through policy alone. In the long run, those states that persist in the quest for a magic bullet will end by shooting themselves in the foot.

For the state that has done it right, setting in motion a triangulated market dynamic that revives local industry and stimulates educational activity, there is always more to do. Public agencies should be conscientious in spreading the word, rewarding best-practice schools and enterprises with public recognition. Equally important is the responsibility of state leaders to identify gaps in the system — to address unmet needs by collecting accurate data and conducting relevant research. How, for example, can public and private agencies work together to improve the school-to-work transition for non-college-bound youth? What is the best way to evaluate and monitor proprietary schools? What is the proper role for community colleges? How can youth apprenticeships be made more attractive to those businesses that supply the necessary employment opportunities? What are the potential advantages and disadvantages of state-certified occupational skills standards?

State leaders will always struggle with crowded agendas; in their efforts to meet the unending demands of public office, they must work hard to preserve a sense of mission. Fundamentally, policymakers are in the business of building trust, serving the public interest by bringing people together — to talk, to work, to produce. Recent events in Los Angeles and in other cities across the nation offer deeply troubling testimony to a serious erosion in public trust. To narrow the widening gap between haves and have nots, to arrest the alarming increase in public cynicism and private despair, state and federal leaders must equip enterprises, schools, and workers with the information and assistance they need to join forces and rekindle economic growth.

It is a challenge that requires Americans to relinquish the coercive assumptions that so often have shaped corporate management and public policy, to welcome instead a new era of cooperative problem solving. For policies toward private enterprise, it means moving beyond reactive strategies: proactively engaging corporate leaders and responsively addressing their technological, organizational, and educational needs. For policies toward individuals, it means moving beyond pity and blame: acknowledging that dead-end training is as damaging as a dead-end job or a token handout; recognizing American families as capable consumers of properly-organized educational services; and respecting American workers as essential partners in the business of rebuilding, town by town and state by state, the American economy.

— Robert Zemsky and Penney Oedel

The National Center on the Educational Quality of the Workforce

EQW is a partnership between one of this nation's premier business schools and one of its leading graduate schools of education. Established by the University of Pennsylvania's Wharton School and Graduate School of Education under a cooperative agreement with the U.S. Department of Education, EQW's program of research and policy analysis takes as its principal challenge the renewal of American competitiveness through leveraged investments in the quality of the nation's workforce.

The EQW research agenda focuses on four broad questions:

1. What do employers need to know to better use the skills their workers bring with them and acquire in the workplace?
2. How can schools and other providers become more effective suppliers of skilled and disciplined workers?
3. How can workers develop more complete skills portfolios that combine the competencies and disciplines a productive economy requires?
4. What is the best role for public policy in the development of a work-related education and training market that efficiently links consuming firms, supplying schools, and educated workers?

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The background for this issue included research that fueled a working conference sponsored by EQW: "State Options and Strategies for Labor Market Investments: Unpacking the Political Cliché." The conference redefined an outdated paradigm for incentives—in the future, it concluded, states seeking a competitive advantage to attract new industries would have to rely more on investments in the human capital of their current workforces than on tax incentives and access to low-cost capital. The sessions were designed principally for policy analysts and program managers responsible for state economic initiatives. Three papers served as focal points for the working conference and provided scholarly reference for this *EQW ISSUES*:

Patricia Flynn. "Competitive Strategies of States: A Life-Cycle Perspective." Working Paper Number WP04. Philadelphia, PA: National Center on the Educational Quality of the Workforce, 1992.

Robert Sheets. "Building a World-Class Front-Line Workforce in the United States: The Need for Occupational Skill Standards in State Workforce Preparation Programs." Working Paper Number WP06. Philadelphia, PA: National Center on the Educational Quality of the Workforce, 1992.

David Stevens. "Advancing Adult Workforce Skills: Opportunities and Requirements for State Action." Working Paper Number WP02. Philadelphia, PA: National Center on the Educational Quality of the Workforce, 1992.

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